



ARBUTHNOT BANKING GROUP PLC

Interim Report 2024

The importance of history and Sun Tzu

The importance of previous experience cannot be overstated. “Those who are not willing to learn from history are doomed to repeat the mistakes of previous generations”.

A good place to start, therefore, is with the famous Chinese General, Sun Tzu and his writings in “The Art of War” ca. 2500 years ago. He established some basic truths such as:

“He whose ranks are united in purpose will be victorious.”

“The commander will surely choose those who are most fortunate.”

“The traits of a true commander are: courage, wisdom, humanity and integrity.”

Origins of Arbuthnot Latham

George Arbuthnot (1772 – 1843) was a son of the Edinburgh banker Robert Arbuthnot. He started in 1803 as a partner in Latour & Co. in Madras (today Chennai), Southern India. Latour & Co. had been set up in 1780 by Count Francis Joseph Louis Latour de Quercy, who died in 1808. In 1807 Latour & Co. became Arbuthnot & Co. and George Arbuthnot became the leading partner until he retired in 1824. In his farewell letter to the partners he said:

“...not only give the constituent (client) the assurance that his money is safe, but also give him the feeling that he is benefitting himself by dealing with the House.”

In 1826 John Alves Arbuthnot started as a clerk at Arbuthnot & Co. and in 1831 became a partner. He married the daughter of George Arbuthnot. Upon his return to London he established, together with Alfred Latham, the trading house Arbuthnot & Latham on 13 March 1833.

(For more details, read the book: Arbuthnot Latham 1833 – 2023 by David Lascelles, 2nd edition)

Directors

Sir Henry Angest
Chairman and Chief Executive

James Cobb FCA
Group Finance Director

Andrew Salmon FCA
Group Chief Operating Officer

Jayne Almond
Independent Non-Executive Director

The Hon Sir Nigel Boardman
Independent Non-Executive Director

Ian Dewar FCA
Independent Non-Executive Director

Richard Gabbertas FCA
Independent Non-Executive Director

Angela Knight CBE
Independent Non-Executive Director

Lord Sassoon FCA
Independent Non-Executive Director

Sir Alan Yarrow FCSI (Hons)
Independent Non-Executive Director

Frederick Angest
Non-Executive Director

Secretary

Nicholas Jennings FCA



Arbuthnot Banking Group PLC

The Seven Principles

Ever since George Arbuthnot first gave guidance about corporate behaviour, it has been the culture of Arbuthnot to follow his advice. The Seven Principles summarise Arbuthnot's corporate philosophy and ethics.

During the 191 year history of serving its customers, Arbuthnot has proven its ability to adapt and grow by applying such principles with pragmatism and common sense.

1. Arbuthnot serves its shareholders, its customers and its employees with integrity and high ethical standards. This is demonstrated in a progressive dividend policy, in fair pricing and in pay for performance.
2. Arbuthnot attaches great importance to good relations with customers and business partners, and treating them fairly and promptly. Arbuthnot believes in reciprocity.
3. Arbuthnot is independent, and profit and growth oriented while maintaining a controlled risk profile.
4. Arbuthnot's business is conducted in an innovative, flexible and entrepreneurial manner, with an opportunistic and counter-cyclical attitude.
5. Arbuthnot's approach is based on diversification to spread the risk, a long-term view to further growth, empowerment of management and a culture of rewards for achievements to engender loyalty.
6. Arbuthnot does not sacrifice long term prospects for short term gains – nor sacrifice stability for quick profits, and it will never put the whole company at risk.
7. Ultimately, the success of Arbuthnot depends on the teamwork, commitment, and performance of its employees, combined with the determination to win.

The continued application of these principles will allow the business to pursue growth in a controlled manner, providing a high quality service to its customers whilst delivering good returns to shareholders and securing the well-being of its employees.

To this end an inclusive and balanced workplace will provide a rewarding as well as challenging environment.

Sir Henry Angest
Chairman & CEO

22 July 2024

Chairman's Statement

I am pleased to report that the Group has recorded a profit before tax for the first six months of the year of £20.8m, compared to £26.4m in the same period last year.

The reported profit is lower, as expected, due to the previously explained time lag between rises in the Bank of England base rate and the ageing of the existing fixed rate deposits. It takes 12 months for the cost of our deposits to rise to their resting rate.

This has been the case during the first half of 2024 with the average cost of deposits being 3.19% compared to 1.92% in the same period in the prior year. This increase when applied to customer deposit balances in excess of £3bn, has increased the cost to the Group by £35.2m, being the main reason for the reduction in profits in the first half of 2024. This trend will continue into the second half.

As previously set out in the strategic plan "Future State 2", the Group is focussed on diversifying the loan books by increasing the proportion represented by the specialist lending divisions.

This continued with success in the first half, with the specialist divisions reaching £861.1m of lending balances, which is growth of 12% during 2024 and 29% in the last 12 months. This now represents 36% of the total lending portfolio compared to 30% in June 2023.

The success the Bank had in growing relationship deposits continued into 2024. As expected, we saw the usual seasonal outflow of balances as tax payments were made by clients. We also encouraged non-relationship, expensive fixed term deposits to mature away from the Bank, without competing on price to retain these balances. Finally, we marketed an investment opportunity for our Private Banking clients to earn higher returns through a gilt investment product. In combination, the impact of these three factors resulted in a reduction in deposits of £235m.

However, despite this, total deposit balances have increased by £103.6m or by 3% since the start of the year and by 19% since June 2023. As part of the strategy to grow our deposit base, we have been focussing on the underserved SME current account market, where we have found that private bank style client service resonates well with the finance professionals of our commercial clients. So much so that the transactional SME deposits grew by £121m in the first half of 2024, an increase of 9% and nearly 20% from the prior year.

I would also like to draw attention to the performance of our Wealth Management division. Many wealth managers across the sector are struggling to grow organically, but we continue to make great strides, growing our Funds Under Management and Administration in the first half by £256m, an increase of 15% and 43% since the prior year.

As previously indicated, I was pleased that we were able to complete the renewal of our subordinated loan with P Capital Partners at the beginning of June. This will ensure that the diversity and strength of our regulatory capital base remains robust. We are delighted that our relationship with P Capital Partners has been extended and value that they share the vision we have for the prospects of the Group.

Reflecting on the success that the Group has enjoyed over the past 18 to 24 months, the Board of directors considered that our shareholders should be rewarded for their loyalty by declaring a further special dividend of 20p per share, which was paid on 20 June.

At the same time, the Board announced the interim dividend for the year, which was also 20p per share, an increase of 1p per share over the prior year interim dividend. This was paid on the same day as the special dividend.

On 2 July we announced Richard Gabbertas was joining the Board of ABG, having already served for over three and a half years on the Board of our bank, Arbuthnot Latham, where he was previously the Chair of the audit committee and had recently become the Chair of the risk committee. I am delighted to welcome him to our Board and wish him well for his future tenure.

Banking

Net client growth across Private and Commercial Banking has increased year on year following the investment into new segments over the last 12 to 18 months. Total deposits grew 3% from the year end and 19% over the previous twelve months to finish the period at £3.9bn.

Private Banking deposits seasonally reduced in the first quarter due to client tax payments. However, client growth and acquisition has led to balances being largely replenished over the second quarter to finish the half year at £0.95bn.

Chairman's Statement *continued*

The strategy continues to focus on low-cost relationship deposits. Commercial Banking deposits increased across a wide spread of target segments with growth of 30% over a twelve-month period. Conversely, non-relationship balances have reduced as these were more expensive to maintain.

The Banking loan book finished the half year with loans of £1.54bn, flat compared to the previous twelve months and year end. Lower than expected repayments over and above contractual repayments, coupled with on-plan gross lending, has led to higher lending balances generating higher interest income throughout the period, which has only been partially offset by a higher interest expense.

Loan book quality remains strong given the macroeconomic environment. The Bank's cautious underwriting approach with low LTVs is resulting in new defaults being exited with little or no loss.

Wealth Management

Funds Under Management and Administration at the end of June were £1.96bn, up 15% from the start of the year and growth of 43% year on year (30 June 2023: £1.38bn).

Year to date gross inflows were £247m compared to £116m over the same period last year, of which a third were from existing clients and two thirds from new clients. Net flows for the period were £170m, representing a four-fold increase versus the same period in 2023. Additionally, the Direct Gilt Service, launched in February 2024, has raised £82m across twenty-one portfolios.

Arbuthnot Commercial Asset Based Lending ("ACABL")

ACABL reported a profit of £4.4m (30 June 2023: £4.0m) and finished the first half with a loan book of £263.8m, compared to £241.1m for the same period in the prior year and £239.8m at the year end.

ACABL has continued to support existing clients with renewals, additional facilities and acquisitions, particularly where clients have a buy and build strategy. However, macro-economic inflationary pressures, and the higher interest rate environment along with ongoing supply chain challenges have resulted in a reduction in the number of event-driven transactions and fewer Private Equity backed buy-outs in early 2024. However, at the half the year, the business is seeing signs of improving market conditions with falling inflation and the prospect of lower interest rates on the horizon.

The business continues to observe a higher number of watch cases compared to prior years. However, the loss rate remains very low due to the high quality, liquid assets, as well as close monitoring of the collateral.

Renaissance Asset Finance ("RAF")

RAF reported a profit of £2.2m (30 June 2023: £0.7m) and finished the first half with a loan book of £234.3m, equating to annual growth of 49% when compared to £156.7m for the same period in the prior year and 18% up from the year end (31 December 2023: £198.8m). In the month of June the business generated profit before tax in excess of £0.5m for the first time.

The business continued to broaden its offerings in the wholesale funding sector whilst developing a specialist finance portfolio, securing new and additional funding through block discounting facilities and revolving credit facilities to businesses with successful track records, with Block Discounting balances of £30.9m following the launch of the business in late 2021.

Asset Alliance Group ("AAG")

AAG reported a profit before tax of £25k (30 June 2023: £2.5m loss). Whilst the business has only just achieved break even, this is partly caused by the stage of development of the business, whereby since acquisition we have more than doubled the size of the fleet in a short period of time. The benefit of this will mainly be felt as the portfolio matures.

As at 30 June 2024 the business had assets available for lease and finance leases totalling £363.1m (30 June 2023: £258.8m) with growth of 11% since the year end and 40% over the previous 12 months.

Despite the current economic headwinds, AAG has generated a strong flow of originations in the 6 months to 30 June 2024. Yields, whilst under pressure in certain areas, have improved in others, with an average yield on new business of 8.2% for the first half of the year.

All new assets delivered for the new Bus Rental Division are being fully utilised with current yields in excess of 10%. The Commercial Vehicle sector is experiencing high levels of customer uncertainty coupled with significant pricing pressure from competitors; however, larger, stronger fleets confirm to be targeting annual fleet replacements.

Trading for used truck sales remains challenging. Margins have tended to be maintained, although demand and stock turnover has yet to fully recover from the post-Covid lull.

Chairman's Statement *continued*

Operations

The Bank has continued to see good momentum in pursuing its strategy for client growth in its target markets. Net new client growth was 3% compared to the year end with a trend towards larger and more complex commercial clients.

Total number of card app users is 25% higher than the same period for the previous year and the total number of transactions through Apple Pay and Google Pay increased by 131% year on year.

The Bank continues to develop its digital roadmap to improve the customer experience and organisational efficiency, including progress in upgrading and transforming the Bank's online and mobile banking offering.

Outlook

We now have a new Labour government, and we await to hear how its plans will be implemented. While the outlook for this remains uncertain, we believe there will be opportunities that we remain well positioned to benefit from.

It is expected that interest rates will start to fall from their current highs, and as disclosed, this will inevitably have a short-term impact on our profits. However, we remain focussed on implementing our growth strategy and we are fortunate to have more than sufficient market opportunities to continue to deliver on this.

Sir Henry Angest
Chairman & CEO

22 July 2024

Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2024 £000	Six months ended 30 June 2023 £000
Income from banking activities			
Interest income		129,565	100,320
Interest expense		(67,509)	(31,950)
Net interest income		62,056	68,370
Fee and commission income		12,769	11,275
Fee and commission expense		(403)	(105)
Net fee and commission income		12,366	11,170
Operating income from banking activities		74,422	79,540
Income from leasing activities			
Revenue		53,178	49,895
Cost of goods sold		(40,457)	(41,821)
Gross profit from leasing activities		12,721	8,074
Total group operating income		87,143	87,614
Net impairment loss on financial assets		(1,053)	(2,453)
Other income	7	704	2,326
Operating expenses		(65,958)	(61,079)
Profit before income tax		20,836	26,408
Income tax expense		(5,399)	(6,440)
Profit for the period		15,437	19,968
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value of equity investments at fair value through other comprehensive income		72	174
Tax on other comprehensive income		(18)	(43)
Other comprehensive income for the period, net of tax		54	131
Total comprehensive income for the period		15,491	20,099
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share):			
Basic earnings per share	8	94.6	129.4
Diluted earnings per share	8	94.6	129.4

The notes on pages 9 to 27 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position

	At 30 June 2024 £000	At 30 June 2023 £000	At 31 December 2023 £000
ASSETS			
Cash and balances at central banks	553,095	646,016	826,559
Loans and advances to banks	121,977	148,970	79,381
Debt securities at amortised cost	1,196,110	597,473	942,437
Assets classified as held for sale	3,203	3,232	3,281
Derivative financial instruments	4,356	7,427	4,214
Loans and advances to customers	2,116,043	2,034,897	2,064,217
Other assets	48,482	66,267	57,150
Financial investments	4,156	3,684	3,942
Deferred tax asset	–	1,706	–
Intangible assets	29,188	30,535	29,587
Property, plant and equipment	313,336	220,539	274,306
Right-of-use assets	49,918	7,314	52,816
Investment properties	5,950	6,550	5,950
Total assets	4,445,814	3,774,610	4,343,840
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital and share premium	167	167	167
Share premium account	11,606	11,606	11,606
Retained earnings	245,158	228,250	240,606
Other reserves	69	(82)	61
Total equity	257,000	239,941	252,440
LIABILITIES			
Deposits from banks	193,758	197,384	193,410
Derivative financial instruments	535	58	1,032
Deposits from customers	3,863,155	3,253,890	3,759,567
Current tax liability	1,194	6,059	294
Other liabilities	33,245	32,573	40,700
Deferred tax liability	4,881	–	4,910
Lease liabilities	53,790	7,415	53,761
Debt securities in issue	38,256	37,290	37,726
Total liabilities	4,188,814	3,534,669	4,091,400
Total equity and liabilities	4,445,814	3,774,610	4,343,840

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Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Fair value reserve £000	Treasury shares £000	Retained earnings £000	Total £000
Balance at 1 January 2024	167	11,606	19	1,341	(1,299)	240,606	252,440
Total comprehensive income for the period							
Profit for the six months ended 30 June 2024	–	–	–	–	–	15,437	15,437
Other comprehensive income, net of income tax							
Changes in the fair value of financial assets at FVOCI	–	–	–	72	–	–	72
Sale of financial assets carried at FVOCI	–	–	–	(46)	–	46	–
Tax on other comprehensive income	–	–	–	(18)	–	–	(18)
Total other comprehensive income	–	–	–	8	–	46	54
Total comprehensive income for the period	–	–	–	8	–	15,483	15,491
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Final dividend relating to 2023	–	–	–	–	–	(4,406)	(4,406)
Interim dividend relating to 2024	–	–	–	–	–	(3,264)	(3,264)
Special dividend relating to 2024	–	–	–	–	–	(3,264)	(3,264)
Total contributions by and distributions to owners	–	–	–	–	–	(10,934)	(10,934)
Balance at 30 June 2024	167	11,606	19	1,349	(1,299)	245,158	257,000

	Attributable to equity holders of the Group						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Fair value reserve £000	Treasury shares £000	Retained earnings £000	Total £000
Balance at 1 January 2023	154	–	19	1,067	(1,299)	212,037	211,978
Total comprehensive income for the period							
Profit for the six months ended 30 June 2023	–	–	–	–	–	19,968	19,968
Other comprehensive income, net of income tax							
Changes in the fair value of financial assets at FVOCI	–	–	–	174	–	–	174
Tax on other comprehensive income	–	–	–	(43)	–	–	(43)
Total other comprehensive income	–	–	–	131	–	–	131
Total comprehensive income for the period	–	–	–	131	–	19,968	20,099
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of new ordinary shares	13	11,606	–	–	–	–	11,619
Final dividend relating to 2022	–	–	–	–	–	(3,755)	(3,755)
Total contributions by and distributions to owners	13	11,606	–	–	–	(3,755)	7,864
Balance at 30 June 2023	167	11,606	19	1,198	(1,299)	228,250	239,941

The notes on pages 9 to 27 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

	Six months ended 30 June 2024 £000	Six months ended 30 June 2023 £000
Cash flows from operating activities		
Profit before tax	20,836	26,408
Adjustments for:		
- Depreciation and amortisation	5,353	5,489
- Impairment loss on loans and advances	594	(667)
- Net interest income	233	72
- Elimination of exchange differences on debt securities	39	8,064
- Other non-cash or non-operating items included in profit before tax	35	(57)
- Tax expense	(5,399)	(6,440)
Cash flows from operating profits before changes in operating assets and liabilities	21,691	32,869
Changes in operating assets and liabilities:		
- net increase in derivative financial instruments	(639)	(1,182)
- net (increase)/decrease in loans and advances to customers	(52,420)	1,847
- net increase in assets held for leasing	(19,634)	(44,758)
- net decrease/(increase) in other operating assets	8,564	(13,316)
- net increase in amounts due to customers	103,588	161,341
- net increase/(decrease) in other operating liabilities	(6,584)	10,741
Net cash inflow from operating activities	54,566	147,542
Cash flows from investing activities		
Acquisition of financial investments	(222)	(106)
Purchase of computer software	(1,173)	(418)
Purchase of property, plant and equipment	(20,097)	(2,067)
Purchases of debt securities	(850,812)	(654,605)
Proceeds from redemption of debt securities	596,496	488,459
Net cash outflow from investing activities	(275,808)	(168,737)
Cash flows from financing activities		
Issue of new ordinary shares	–	11,619
Decrease in borrowings	1,288	(38,643)
Repayment of principal portions of lease liabilities	22	(1,555)
Dividends paid	(10,936)	(3,756)
Net cash used in financing activities	(9,626)	(32,335)
Net (decrease)/increase in cash and cash equivalents	(230,868)	(53,530)
Cash and cash equivalents at 1 January	905,940	848,516
Cash and cash equivalents at 30 June	675,072	794,986

The notes on pages 9 to 27 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

1. Basis of preparation

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2023 statutory accounts as amended by UK-adopted standards and interpretations effective during 2024 as set out below and in accordance with IAS 34 "Interim Financial Reporting" as adopted for use in the UK. The directors do not consider the fair value of the assets and liabilities presented in these financial statements to be materially different from their carrying value.

The statements were approved by the Board of Directors on 22 July 2024 and are unaudited. The interim financial statements will be available on the Group website (www.arbuthnotgroup.com) from 23 July 2024.

2. Risks and uncertainties

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. A detailed description of the risk management framework and associated policies is set out in Note 4.

The principal risks inherent in the Group's business are reputational, macroeconomic and competitive environment, climate change, strategic, credit, market, liquidity, operational, cyber, residual value, conduct, financial crime and, regulatory and capital.

Reputational risk

Reputational risk is the risk to the Group from a failure to meet reasonable stakeholder expectations as a result of any event, behaviour, action or inaction by ABG itself, its employees or those with whom it is associated. This includes the associated risk to earnings, capital or liquidity.

ABG seeks to ensure that all of its businesses act consistently with the seven corporate principles as laid out on page 3 of the Annual Report and Accounts. This is achieved through a central Risk Management framework and supporting policies, the application of a three lines of defence model across the Group and oversight by various committees. Employees are supported in training, studies and other ways and encouraged to live out the cultural values within the Group of integrity, energy and drive, respect, collaboration and empowerment. In applying the seven corporate principles, the risk of reputational damage is minimised as the Group serves its shareholders, customers and employees with integrity and high ethical standards.

Macroeconomic and competitive environment

The Group is exposed to indirect risk that may arise for the macroeconomic and competitive environment.

In recent years there have been a number of global and domestic events which have had significant implications on the Group's operating environment, namely: Russia's War in Ukraine, the Israel-Hamas war in Gaza, Coronavirus and Brexit. The culmination of these events has led to significant turmoil in both global and domestic markets. The most significant economic effect from these events includes record inflation, leading to sharp and significant increases in the cost of borrowing. It is expected that interest rates will start to fall from their current highs, however geo-political volatility and uncertainty remains high with the potential to adversely affect the UK economy, as well as the Group's customers and assets.

Climate change

Climate change presents financial and reputational risks for the banking industry. The Board consider climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as industry consensus emerges. The assessment is maintained by the Chief Risk Officer and has been informed by the ICAAP review and workshops for employees.

Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. The UK has a legally binding target to cut its greenhouse gas emissions to "net zero" by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy which will have financial implications while bringing risks and opportunities.

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the Arbuthnot Latham Risk Committee. Arbuthnot Latham has been assessed against the Task Force on Climate-related Financial Disclosures' ("TCFD") recommended disclosures and where appropriate the FCA/PRA guidance as per the Supervisory Statements.

Notes to the Consolidated Financial Statements *continued*

2. Risks and uncertainties (continued)

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group has allocated responsibility for identifying and managing the risks from climate change to the relevant existing Senior Management Function. The Bank is continuously developing a suitable strategic approach to climate change and the unique challenges it poses.

The FCA have issued 'Climate Change and Green Finance: summary of responses and next steps'. In addition to the modelling of various scenarios and various governance reviews, the Group will continue to monitor requirements through the relationship with UK Finance.

Strategic risk

Strategic risk is the risk that the Group's ability to achieve its corporate and strategic objectives may be compromised. This risk is particularly important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group's business strategy. Also, the Directors normally meet once a year outside a formal Board setting to ensure that the Group's strategy is appropriate for the market and economy.

Credit risk

Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £2.2bn (30 June 2023: £2.2bn). The lending portfolio in Arbuthnot Latham is extended to clients, the majority of which is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee of Arbuthnot Latham.

Market risk

Market risk arises in relation to movements in interest rates, currencies, property and equity markets.

Interest rate and currency risk

The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches. The Group actively monitors its exposure to future changes in interest rates. However, at the current time the Group does not hedge the earnings from the free cash which currently totals £553m. The cost of hedging is prohibitive. Cash is held at the BOE and with the general consensus in the market that rates are expected to fall, the Group has shifted its focus to longer term fixed rate lending products and also started to invest some of the excess liquidity into high quality short dated fixed income assets, such as gilts.

Property and equity market risk

The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.0m (31 December 2023: £6.0m), property held for sale £3.2m (31 December 2023: £3.3m) and properties classified as inventory are carried at £14.8m (31 December 2023: £14.7m). Any changes in the market value of the property will be accounted for in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group. The Group is also exposed to changes in the value of equity investments. The current carrying value of financial investments is £4.2m (31 December 2023: £3.9m). Any changes in the value of financial investments will be accounted for in Other Comprehensive Income.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at an excessive cost. The Group takes a conservative approach to managing its liquidity profile. Retail client deposits, together with drawings from the Bank of England Term Funding Scheme and capital fund the Bank. The loan to deposit ratio is maintained at a prudent level, and consequently the Group maintains a high level of liquidity. The Arbuthnot Latham Board annually approves the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The Directors model various stress scenarios and assess the resultant cash flows in order to evaluate the Group's potential liquidity requirements. The Directors firmly believe that sufficient liquid assets are held to enable the Group to meet its liabilities in a stressed environment.

Notes to the Consolidated Financial Statements *continued*

2. Risks and uncertainties (continued)

Operational risk

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The Group's exposures to operational risk include its Information Technology ("IT") and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

In line with guidance issued by the Regulator, the Bank has continued to focus on ensuring that the design of systems and operational plans are robust to maintain operational resilience in the face of unexpected incidents.

Cyber risk

Cyber risk is an increasing risk for the Group within its operational processes. It is the risk that the Group is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group regularly tests the infrastructure to ensure that it remains robust to a range of threats and has continuity of business plans in place including a disaster recovery plan.

Residual value risk

Residual value risk equals the difference in the residual value of a leased asset set at lease inception and the lower salvage value realised upon its disposal or re-lease at the end of the lease term. The Group is exposed to residual value risk in its AAG business. Normal residual value risk is managed through the process set out below, and it should be noted that the transition to greener technology may further impact residual values in two ways. Firstly, residual values could decrease due to assets becoming obsolete; climate related regulations might change, which could result in legal restrictions on the use of assets or technological advances could lead to preferred environmental technologies. Secondly, the lack of historical information on green vehicles could lead to inaccurate measurement of residual values at inception of leases.

The AAG business manage Residual Value setting through its Residual Value Committee that comprises representatives from its Asset Management, Procurement, Sales and Leasing divisions and is chaired by the Residual Value Manager. Assets are valued using either an approved Residual Value matrix or individually, dependent upon the nature of the asset and current market conditions. The strategy for Residual Value setting and oversight of the Residual Value Committee is conducted by the AAG Residual Risk Committee, which in turn reports into Asset Alliance Group Holdings Limited board. The Residual Risk Committee, chaired by the AAG Group Risk Director, includes AAG CEO, AL Group Risk Director, AAG Managing Director, AAG Finance Director and heads of Asset Management, Sales and Leasing divisions in AAG.

Conduct risk

As a financial services provider the Group faces conduct risk, including selling products to customers which do not meet their needs, failing to deal with clients' complaints effectively, not meeting clients' expectations, and exhibiting behaviours which do not meet market or regulatory standards.

The Group adopts a low risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all employees. Periodic spot checks, compliance monitoring and internal audits are performed to ensure these guidelines are followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

Financial Crime

The Group is exposed to risk due to financial crime including money laundering, sanctions evasion, bribery and corruption, market abuse, tax evasion and fraud. The Group operates policies and controls which are designed to ensure that financial crime risks are identified, appropriately mitigated and managed.

Regulatory and capital risk

Regulatory and capital risk includes the risk that the Group will have insufficient capital resources to support the business and/or does not comply with regulatory requirements. The Group adopts a conservative approach to managing its capital. The Board of Arbuthnot Latham approves an ICAAP annually, which includes the performance of stringent stress tests to ensure that capital resources are adequate over a three year horizon. Capital and liquidity ratios are regularly monitored against the Board's approved risk appetite as part of the risk management framework.

Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group's competitive situation and lower its profitability.

Notes to the Consolidated Financial Statements *continued*

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. For a full list of critical accounting estimates and judgements, please refer back to the Annual Report and Accounts for 2023. Assumptions surrounding credit losses are discussed in more detail below, while other critical accounting estimates and judgements have remained unchanged from what was previously reported.

Estimation uncertainty - Expected credit losses (“ECL”) on financial assets

The Group reviews its loan portfolios and debt security investments to assess impairment at least on a quarterly basis. The measurement of ECL required by IFRS 9, necessitates a number of significant judgements. Specifically, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information (“FLI”) in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

The Group incorporates FLI into the assessment of whether there has been a significant increase in credit risk. Forecasts for key macroeconomic variables that most closely correlate with the Bank’s portfolio are used to produce five economic scenarios, comprising of a Baseline, which is the central scenario, developed internally based on public consensus forecasts, and four less likely scenarios, one upside and three downside scenarios (Downside 1, Downside 2 and Extreme Downside), and the impacts of these scenarios are then probability weighted. The estimation and application of this FLI will require significant judgement supported by the use of external information.

12-month ECLs on loans and advances (loans within Stage 1) are calculated using a statistical model on a collective basis, grouped together by product and geographical location. The key assumptions are the probability of default, the economic scenarios and loss given default (“LGD”) having consideration for collateral. Lifetime ECLs on loans and advances (loans within Stage 2 and 3) are calculated based on an individual valuation of the underlying asset and other expected cash flows.

For financial assets in Stage 2 and 3, ECL is calculated on an individual basis and all relevant factors that have a bearing on the expected future cash flows are taken into account. These factors can be subjective and can include the individual circumstances of the borrower, the realisable value of collateral, the Group’s position relative to other claimants, and the likely cost to sell and duration of the time to collect. The level of ECL is the difference between the value of the recoverable amount (which is equal to the expected future cash flows discounted at the loan’s original effective interest rate), and its carrying amount.

The Group considered the impact of various assumptions on the calculation of ECL (changes in GDP, unemployment rates, inflation, exchange rates, equity prices, wages and collateral values/property prices) and concluded that collateral values/property prices, UK GDP and UK unemployment rate are key drivers of credit risk and credit losses for each portfolio of financial instruments.

The five macroeconomic scenarios modelled on future property prices were as follows:

- Baseline
- Upside
- Downside 1
- Downside 2
- Extreme downside

The table below therefore reflects the expected probability weightings applied for each macroeconomic scenario:

Economic Scenarios	Probability weighting	
	June 2024	December 2023
Baseline	42.0%	46.0%
Upside	21.0%	16.0%
Downside 1	19.0%	18.0%
Downside 2	11.0%	12.0%
Extreme downside	7.0%	8.0%

Notes to the Consolidated Financial Statements *continued*

3. Critical accounting estimates and judgements in applying accounting policies (continued)

The tables below show the five-year forecasted average for property prices growth, UK unemployment rate and UK real GDP growth:

	30 June 2024				
	Base	Upside	Downside 1	Downside 2	Extreme downside
Five-year summary					
UK House price index - average growth	1.9%	4.8%	(0.1%)	(2.1%)	(4.2%)
UK Commercial real estate price - average growth	0.9%	4.2%	(1.0%)	(3.0%)	(4.9%)
UK Unemployment rate - average	4.4%	3.8%	5.4%	6.3%	7.3%
UK GDP - average growth	1.3%	1.9%	0.9%	0.4%	0.0%

	31 December 2023				
	Base	Upside	Downside 1	Downside 2	Extreme downside
Five-year summary					
UK House price index - average growth	1.5%	5.8%	(0.4%)	(2.3%)	(4.2%)
UK Commercial real estate price - average growth	1.5%	3.6%	(0.7%)	(2.8%)	(4.9%)
UK Unemployment rate - average	4.9%	3.9%	5.7%	6.5%	7.3%
UK GDP - average growth	1.3%	2.1%	0.9%	0.4%	0.0%

The tables below list the macroeconomic assumptions at 30 June 2024 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the absolute percentage unemployment rates and year-on-year percentage change for GDP and property prices.

UK House price index - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	(1.8%)	3.0%	(4.9%)	(7.9%)	(11.0%)
2025	1.6%	5.0%	(4.6%)	(10.7%)	(16.9%)
2026	2.4%	4.8%	(0.7%)	(3.7%)	(6.8%)
2027	3.8%	4.8%	4.9%	6.0%	7.2%
2028	3.7%	6.2%	4.7%	5.6%	6.6%
5 year average	1.9%	4.8%	(0.1%)	(2.1%)	(4.2%)

UK Commercial real estate price - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	(0.1%)	10.9%	(10.1%)	(20.0%)	(30.0%)
2025	1.4%	3.7%	(5.3%)	(11.9%)	(18.6%)
2026	1.0%	3.0%	3.0%	5.0%	7.0%
2027	1.4%	2.1%	3.7%	6.1%	8.5%
2028	0.8%	1.3%	3.4%	6.0%	8.6%
5 year average	0.9%	4.2%	(1.0%)	(3.0%)	(4.9%)

Notes to the Consolidated Financial Statements *continued*

3. Critical accounting estimates and judgements in applying accounting policies (continued)

UK Unemployment rate - annual average

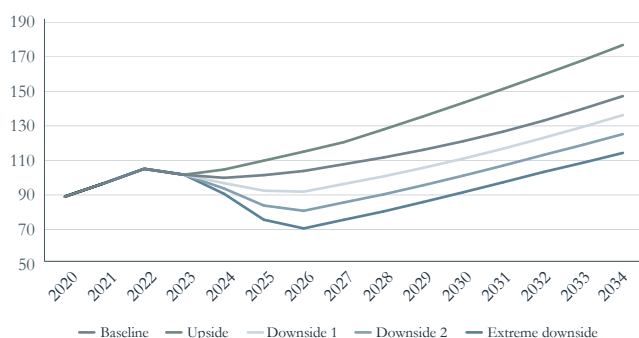
Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	4.4%	3.9%	4.9%	5.4%	6.0%
2025	4.4%	3.9%	5.7%	7.1%	8.4%
2026	4.6%	3.8%	5.7%	6.8%	8.0%
2027	4.6%	3.7%	5.5%	6.4%	7.4%
2028	4.0%	3.7%	4.9%	5.8%	6.7%
5 year average	4.4%	3.8%	5.4%	6.3%	7.3%

UK GDP - annual growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	0.6%	1.2%	(1.3%)	(3.2%)	(5.0%)
2025	1.2%	2.0%	1.2%	1.3%	1.2%
2026	1.6%	2.4%	1.5%	1.3%	1.2%
2027	1.6%	2.0%	1.5%	1.3%	1.2%
2028	1.5%	1.8%	1.4%	1.3%	1.2%
5 year average	1.3%	1.9%	0.9%	0.4%	(0.0%)

The graphs below plot the historical data for HPI, Commercial real estate price, unemployment rate and GDP growth rate in the UK as well as the forecasted data under each of the five scenarios.

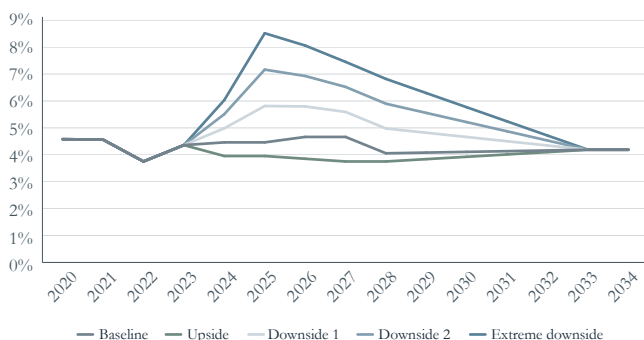
UK House Price Index



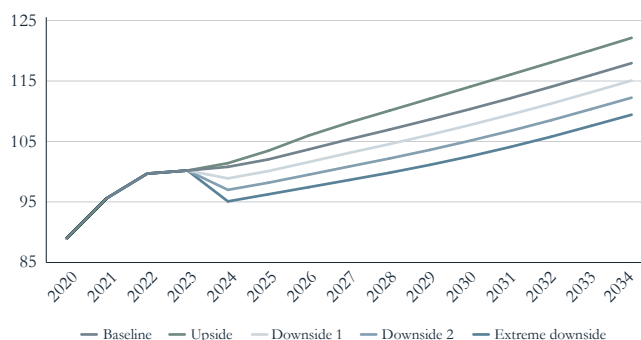
UK Commercial Real Estate Price



UK unemployment



UK GDP



Notes to the Consolidated Financial Statements *continued*

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Management have assessed the impact of assigning a 100% probability to each of the economic scenarios, which would have the following impact on the Profit or Loss of the Group:

Impact of 100% scenario probability	Arbuthnot Latham	
	June 2024 £m	December 2023 £m
Baseline	0.5	0.8
Upside	1.2	1.6
Downside 1	(1.0)	(1.7)
Downside 2	(7.0)	(8.1)
Extreme downside	(22.5)	(24.0)

4. Financial risk management

Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The principal non-operational risks inherent in the Group's business are credit, macroeconomic, market, liquidity and capital.

Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company and Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committee of the banking subsidiary.

The Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the period.

The Company and Group structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to products, and one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, and corporate and personal guarantees.

The Group has attempted to leverage stress test modelling insights to inform ECL model refinements to enable reasonable estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for loans and advances include, but are not limited to:

- Charges over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over other chattels; and
- Personal guarantees

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness, or held as inventory where the Group intends to develop and sell in the future. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The key inputs into the measurement of the ECL are:

- assessment of significant increase in credit risk
- future economic scenarios
- probability of default
- loss given default
- exposure at default

The IFRS 9 impairment model adopts a three stage approach based on the extent of credit deterioration since origination.

The Group's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	30 June 2024					
Group Credit risk exposures (all stage 1, unless otherwise stated)	Banking £000	RAF £000	ACABL £000	AAG £000	All Other Divisions £000	Total £000
On-balance sheet:						
Cash and balances at central banks	–	–	–	–	552,876	552,876
Loans and advances to banks	–	–	–	–	121,977	121,977
Debt securities at amortised cost	–	–	–	–	1,196,110	1,196,110
Derivative financial instruments	–	–	–	–	4,356	4,356
Loans and advances to customers (Gross of ECL)	1,546,013	236,078	264,055	76,165	1,135	2,123,446
Stage 1 - Gross amount outstanding	1,382,850	229,618	253,603	76,165	–	1,942,236
Stage 2 - Gross amount outstanding	79,114	2,559	9,816	–	–	91,489
Stage 3 - Gross amount outstanding	84,049	3,901	636	–	1,135	89,721
Other assets	–	–	–	–	6,910	6,910
Financial investments	–	–	–	–	4,156	4,156
Off-balance sheet:						
Guarantees	2,251	–	–	–	–	2,251
Loan commitments	174,459	–	280,579	–	–	455,038
At 30 June 2024	1,722,723	236,078	544,634	76,165	1,887,520	4,467,120

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

Group Credit risk exposures (all stage 1, unless otherwise stated)	30 June 2023						Total £000
	Banking £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	
On-balance sheet:							
Cash and balances at central banks	–	–	–	–	–	645,854	645,854
Loans and advances to banks	–	–	–	–	–	148,970	148,970
Debt securities at amortised cost	–	–	–	–	–	597,473	597,473
Derivative financial instruments	–	–	–	–	–	7,427	7,427
Loans and advances to customers (Gross of ECL)	1,586,688	157,972	241,255	12,472	42,444	–	2,040,831
Stage 1 - Gross amount outstanding	1,473,480	152,553	226,484	11,472	42,444	–	1,906,433
Stage 2 - Gross amount outstanding	65,082	2,531	12,654	1,000	–	–	81,267
Stage 3 - Gross amount outstanding	48,126	2,888	2,117	–	–	–	53,131
Other assets	–	–	–	–	–	25,118	25,118
Financial investments	–	–	–	–	–	3,684	3,684
Off-balance sheet:							
Guarantees	1,841	–	–	–	–	–	1,841
Loan commitments	225,901	–	284,290	665	–	–	510,856
At 30 June 2023	1,814,430	157,972	525,545	13,137	42,444	1,428,526	3,982,054

Group Credit risk exposures (all stage 1, unless otherwise stated)	31 December 2023						Total £000
	Banking £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	
On-balance sheet:							
Cash and balances at central banks	–	–	–	–	–	826,397	826,397
Loans and advances to banks	–	–	–	–	–	79,381	79,381
Debt securities at amortised cost	–	–	–	–	–	942,437	942,437
Assets classified as held for sale	–	–	–	–	–	3,281	3,281
Derivative financial instruments	–	–	–	–	–	4,214	4,214
Loans and advances to customers (Gross of ECL)	1,567,732	200,606	240,178	3,113	59,396	–	2,071,025
Stage 1 - Gross amount outstanding	1,428,237	194,571	223,912	3,113	59,109	–	1,908,942
Stage 2 - Gross amount outstanding	69,765	2,267	10,432	–	287	–	82,751
Stage 3 - Gross amount outstanding	69,730	3,768	5,834	–	–	–	79,332
Other assets	–	–	–	–	–	22,361	22,361
Financial investments	–	–	–	–	–	3,942	3,942
Off-balance sheet:							
Guarantees	2,051	–	–	–	–	–	2,051
Loan commitments	156,027	–	294,399	113	–	–	450,539
At 31 December 2023	1,725,810	200,606	534,577	3,226	59,396	1,882,013	4,405,628

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

The tables below show the Group's expected credit loss (ECL), by segment and stage:

30 June 2024							
Group ECL provisions	Banking £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	(237)	(109)	(50)	–	(277)	–	(673)
Stage 2	(216)	(60)	(71)	–	–	–	(347)
Stage 3	(4,510)	(1,617)	(156)	–	–	(100)	(6,383)
At 30 June 2024	(4,963)	(1,786)	(277)	–	(277)	(100)	(7,403)

30 June 2023							
Group ECL provisions	Banking £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	(581)	(223)	(121)	(96)	(108)	–	(1,129)
Stage 2	(33)	(45)	(14)	–	–	–	(92)
Stage 3	(3,707)	(956)	(50)	–	–	–	(4,713)
At 30 June 2023	(4,321)	(1,224)	(185)	(96)	(108)	–	(5,934)

31 December 2023							
Group ECL provisions	Banking £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	(483)	(148)	(62)	(35)	(186)	–	(914)
Stage 2	(231)	(121)	(84)	–	–	–	(436)
Stage 3	(3,655)	(1,547)	(256)	–	–	–	(5,458)
At 31 December 2023	(4,369)	(1,816)	(402)	(35)	(186)	–	(6,808)

Capital management

During the period all regulated entities have complied with all of the externally imposed capital requirements to which they are subject. The capital position of the Group remains strong. The Total Capital Requirement Ratio ("TCR") is 8.32% (30 June 2023: 8.32%; 31 December 2023: 8.32%), while the CET1 capital ratio is 11.6% (30 June 2023: 12.2%; 31 December 2023: 13.0%) and the total capital ratio is 13.6% (30 June 2023: 14.5%; 31 December 2023: 15.2%).

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

Valuation of financial instruments

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the event that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads assists in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The tables below analyse financial instruments measured at fair value by the level in the fair value hierarchy into which the measurement is categorised:

At 30 June 2024	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	–	4,356	–	4,356
Financial investments	–	–	4,156	4,156
	–	4,356	4,156	8,512
LIABILITIES				
Derivative financial instruments	–	535	–	535
	–	535	–	535

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

At 30 June 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	–	7,427	–	7,427
Financial investments	–	–	3,684	3,684
	–	7,427	3,684	11,111
LIABILITIES				
Derivative financial instruments	–	58	–	58
	–	58	–	58

At 31 December 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	–	4,214	–	4,214
Financial investments	–	–	3,942	3,942
	–	4,214	3,942	8,156
LIABILITIES				
Derivative financial instruments	–	1,032	–	1,032
	–	1,032	–	1,032

There were no transfers between level 1 and level 2 during the year.

The following table reconciles the movement in level 3 financial instruments measured at fair value (financial investments) during the year:

	At 30 June 2024 £000	At 30 June 2023 £000	At 31 December 2023 £000
Movement in level 3			
At 1 January	3,942	3,404	3,404
Acquisitions	223	106	177
Disposals	(84)	–	(51)
Movements recognised in Other Comprehensive Income	75	174	412
At 30 June / 31 December	4,156	3,684	3,942

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

The tables below show the fair value of financial instruments carried at amortised cost by the level in the fair value hierarchy:

At 30 June 2024	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	–	553,095	–	553,095
Loans and advances to banks	–	121,977	–	121,977
Debt securities at amortised cost	–	1,195,965	–	1,195,965
Loans and advances to customers	–	–	2,110,029	2,110,029
Other assets	–	–	6,910	6,910
	–	1,871,037	2,116,939	3,987,976
LIABILITIES				
Deposits from banks	–	193,758	–	193,758
Deposits from customers	–	3,863,155	–	3,863,155
Other liabilities	–	–	33,245	33,245
Debt securities in issue	–	–	38,256	38,256
	–	4,056,913	71,501	4,128,414
At 30 June 2023				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	–	646,016	–	646,016
Loans and advances to banks	–	148,970	–	148,970
Debt securities at amortised cost	–	597,294	–	597,294
Loans and advances to customers	–	–	1,995,048	1,995,048
Other assets	–	–	25,118	25,118
	–	1,392,280	2,020,166	3,412,446
LIABILITIES				
Deposits from banks	–	197,384	–	197,384
Deposits from customers	–	3,253,890	–	3,253,890
Other liabilities	–	–	32,573	32,573
Debt securities in issue	–	–	37,290	37,290
	–	3,451,274	69,863	3,521,137
At 31 December 2023				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	–	826,559	–	826,559
Loans and advances to banks	–	79,381	–	79,381
Debt securities at amortised cost	–	943,231	–	943,231
Loans and advances to customers	–	–	2,058,780	2,058,780
Other assets	–	–	22,361	22,361
	–	1,849,171	2,081,141	3,930,312
LIABILITIES				
Deposits from banks	–	193,410	–	193,410
Deposits from customers	–	3,759,567	–	3,759,567
Other liabilities	–	–	18,542	18,542
Debt securities in issue	–	–	37,726	37,726
	–	3,952,977	56,268	4,009,245

Notes to the Consolidated Financial Statements *continued*

4. Financial risk management (continued)

All above assets and liabilities are carried at amortised cost. Therefore for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Cash and balances at central banks

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Loans and advances to customers

The fair value of loans and advances to customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date, and the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending; these take account of expected credit losses based on historic trends and expected future cash flows.

For the acquired loan book, the discount on acquisition is used to determine the fair value in addition to the expected credit losses and expected future cash flows.

Debt securities

The fair value of debt securities is based on the quoted mid-market share price.

Derivatives

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange.

Deposits from banks

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds. The fair value of instant access deposits is equal to book value as they are repayable on demand.

Financial liabilities

The fair value of other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of each year, the fair value of other financial liabilities was calculated to be equivalent to their carrying value due to their short maturity. The other financial liabilities include all other liabilities other than non-interest accruals.

Subordinated liabilities

The fair value of subordinated liabilities was calculated based upon the present value of the expected future principal cash flows.

Notes to the Consolidated Financial Statements *continued*

5. Operating segments

The Group is organised into seven operating segments as disclosed below:

- 1) Banking – Includes Private and Commercial Banking. Private Banking – Provides traditional private banking services. Commercial Banking – Provides bespoke commercial banking services and tailored secured lending against property investments and other assets. The acquired mortgage portfolio is also included in Banking.
- 2) Wealth Management – Offering financial planning and investment management services.
- 3) RAF – Specialist asset finance lender mainly in high value cars but also business assets.
- 4) ACABL – Provides finance secured on either invoices, assets or stock of the borrower.
- 5) AAG – Provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets.
- 6) All Other Divisions – All other smaller divisions and central costs in Arbuthnot Latham & Co., Ltd (Investment property and Central costs).
- 7) Group Centre – ABG Group management.

Transactions between the operating segments are on normal commercial terms. Centrally incurred expenses are charged to operating segments on an appropriate pro-rata basis. Segment assets and liabilities comprise loans and advances to customers and customer deposits, being the majority of the balance sheet.

Notes to the Consolidated Financial Statements *continued*

5. Operating segments (continued)

Six months ended 30 June 2024	Banking £000	Wealth Management £000	RAF £000	ACABL £000	AAG £000	All Other Divisions £000	Group Centre £000	Total £000
Interest revenue	59,610	–	8,815	11,979	2,357	46,804	–	129,565
Interest revenue from external customers	59,610	–	8,815	11,979	2,357	46,804	–	129,565
Fee and commission income	1,721	6,599	104	3,564	–	781	–	12,769
Revenue	–	–	–	–	53,178	–	–	53,178
Revenue from external customers	61,331	6,599	8,919	15,543	55,535	47,585	–	195,512
Interest expense	(13,431)	–	(3,017)	(7,478)	(7,584)	(33,861)	(2,138)	(67,509)
Cost of goods sold	–	–	–	–	(40,457)	–	–	(40,457)
Fee and commission expense	(367)	(32)	(7)	–	(9)	12	–	(403)
Segment operating income	47,533	6,567	5,895	8,065	7,485	13,736	(2,138)	87,143
Impairment losses	(582)	–	(351)	3	(62)	(61)	–	(1,053)
Other income	–	–	–	–	53	612	39	704
Operating expenses	(33,380)	(9,060)	(3,321)	(3,682)	(7,451)	(4,061)	(5,003)	(65,958)
Segment profit / (loss) before tax	13,571	(2,493)	2,223	4,386	25	10,226	(7,102)	20,836
Income tax (expense) / income	–	–	(269)	(576)	(605)	(2,630)	(1,319)	(5,399)
Segment profit / (loss) after tax	13,571	(2,493)	1,954	3,810	(580)	7,596	(8,421)	15,437
Loans and advances to customers	1,541,087	–	234,292	263,778	75,888	998	–	2,116,043
Assets available for lease	–	–	–	–	287,184	–	–	287,184
Other assets	–	–	–	–	–	2,050,765	(8,178)	2,042,587
Segment total assets	1,541,087	–	234,292	263,778	363,072	2,051,763	(8,178)	4,445,814
Customer deposits	3,863,155	–	–	–	–	–	–	3,863,155
Other liabilities	–	–	–	–	–	324,573	1,086	325,659
Segment total liabilities	3,863,155	–	–	–	–	324,573	1,086	4,188,814
Other segment items:								
Capital expenditure	–	–	–	–	(56,606)	(19,979)	(118)	(76,703)
Depreciation and amortisation	–	–	–	–	(27,966)	(689)	(12)	(28,667)

The “Group Centre” segment above includes the parent entity and all intercompany eliminations.

Notes to the Consolidated Financial Statements *continued*

5. Operating segments (continued)

Six months ended 30 June 2023	Banking* £000	Wealth Management £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Group Centre £000	Total £000
Interest revenue	56,652	–	5,500	11,253	661	778	25,476	3	100,323
Inter-segment revenue	–	–	–	–	–	–	–	(3)	(3)
Interest revenue from external customers	56,652	–	5,500	11,253	661	778	25,476	–	100,320
Fee and commission income	1,471	5,579	18	3,331	11	–	865	–	11,275
Revenue	–	–	–	–	–	49,895	–	–	49,895
Revenue from external customers	58,123	5,579	5,518	14,584	672	50,673	26,341	–	161,490
Interest expense	1,184	–	(1,997)	(7,125)	(215)	(4,224)	(17,475)	(2,101)	(31,953)
Cost of goods sold	–	–	–	–	–	(41,821)	–	–	(41,821)
Add back inter-segment revenue	–	–	–	–	–	–	–	3	3
Fee and commission expense	(20)	–	–	(85)	–	–	–	–	(105)
Segment operating income	59,287	5,579	3,521	7,374	457	4,628	8,866	(2,098)	87,614
Impairment losses	(2,005)	–	(303)	(17)	(15)	(113)	–	–	(2,453)
Other income	65	–	108	–	–	12	2,141	–	2,326
Operating expenses	(26,257)	(7,515)	(2,666)	(3,333)	(972)	(7,011)	(8,171)	(5,154)	(61,079)
Segment profit / (loss) before tax	31,090	(1,936)	660	4,024	(530)	(2,484)	2,836	(7,252)	26,408
Income tax (expense) / income	–	–	(159)	(950)	133	(220)	(3,925)	(1,319)	(6,440)
Segment profit / (loss) after tax	31,090	(1,936)	501	3,074	(397)	(2,704)	(1,089)	(8,571)	19,968
Loans and advances to customers	1,582,366	–	156,748	241,071	12,376	42,336	–	–	2,034,897
Assets available for lease	–	–	–	–	–	216,496	–	–	216,496
Other assets	–	–	–	–	–	–	1,526,231	(3,014)	1,523,217
Segment total assets	1,582,366	–	156,748	241,071	12,376	258,832	1,526,231	(3,014)	3,774,610
Customer deposits	3,254,761	–	–	–	–	–	–	(871)	3,253,890
Other liabilities	–	–	–	–	–	–	277,663	3,116	280,779
Segment total liabilities	3,254,761	–	–	–	–	–	277,663	2,245	3,534,669
Other segment items:									
Capital expenditure	–	–	(5)	–	–	(97,066)	(1,941)	–	(99,012)
Depreciation and amortisation	–	–	(1)	–	(296)	(18,429)	(3,230)	–	(21,956)

Segment profit is shown prior to any intra-group eliminations.

* Banking numbers have been represented to include the Mortgage Portfolio.

Notes to the Consolidated Financial Statements *continued*

6. Underlying Profit

The Group has reported a profit before tax of £20.8m (2023 H1: £26.4m). The underlying profit before tax was £20.8m (2023 H1: profit of £29.3m).

	30 June 2024 £000	30 June 2023 £000
Underlying profit reconciliation		
Profit before tax and group recharges	20,836	26,408
Profits earned on sale of trucks included in bargain purchase	–	2,940
Underlying profit	20,836	29,348

During 2021 the Group acquired Asset Alliance Group Holdings Limited, which completed on 1 April 2021. The business was acquired at a discount to its fair valued net assets resulting in a bargain purchase of £8.7m in the first half of 2021.

The forgone profit on the sale of trucks generated by Asset Alliance in the prior period was £2.9m, which was required from the acquisition accounting in 2021. The fair value adjustments to individual assets at acquisition were reversed through profit or loss at the point of sale.

7. Other income

Other income includes rental income from the investment property of £0.4m (H1 2023: £0.2m). The prior period also included £0.9m recognised on a non-refundable deposit from a property owned by the Group and £0.4m in relation to a professional indemnity claim.

8. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares 16,319,926 (2023: 15,431,170) in issue during the period.

Diluted

Diluted earnings per ordinary share are calculated by dividing the dilutive profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, as well as the number of dilutive share options in issue during the period. There were no dilutive share options in issue at the end of June (2023: nil).

	Six months ended 30 June 2024 £000	Six months ended 30 June 2023 £000
Profit attributable		
Total profit after tax attributable to equity holders of the Company	15,437	19,968
Basic earnings per share	p	p
Total Basic Earnings per share	94.6	129.4

Notes to the Consolidated Financial Statements *continued*

9. Share capital and share premium

	30 June 2024 £000	30 June 2023 £000
Share capital	167	167
Share premium	11,606	11,606
Share capital and share premium	11,773	11,773

Ordinary share capital

	Number of shares	Share Capital £000
At 1 January 2024	16,576,619	166
At 30 June 2024	16,576,619	166

Ordinary non-voting share capital

	Number of shares	Share Capital £000
At 1 January 2024	152,621	1
At 30 June 2024	152,621	1

Total share capital

	Number of shares	Share Capital £000
At 1 January 2023	16,729,240	167
At 30 June 2023	16,729,240	167

a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options by the Company are shown in equity as a deduction, net of tax, from the proceeds.

b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

c) Share buybacks

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

The Ordinary shares have a par value of 1p per share (2023: 1p per share). At 30 June 2024 the Company held 409,314 shares (2023: 409,314) in treasury. This includes 390,274 (2023: 390,274) Ordinary shares and 19,040 (2023: 19,040) Ordinary Non-Voting shares.

10. Events after the balance sheet date

There were no material post balance sheet events to report.

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